CREDIT IMPERIALISM/ DEBT-TRAP DIPLOMACY/CHEQUEBOOK DIPLOMACY

This article will describe in detail the effect of policies and politics of developed and developing countries on India’s interests.

These UPSC Notes on credit imperialism/ debt-trap diplomacy/ chequebook diplomacy in India are aligned with the UPSC Syllabus and aspirants should prepare this topic for General Studies Paper I.

Credit imperialism/ debt-trap diplomacy/ chequebook diplomacy are issues and effect of policies and politics of developed and developing countries on India’s interests. These are frequently discussed in the news and hence important for the UPSC Mains.

IAS Exam aspirants can find more notes for UPSC Mains General Studies topics from the links given at the end of the article.

Topic: Effect of policies and politics of developed and developing countries on India’s interests.

Debt-trap diplomacy is a type of diplomacy based on debt carried out in the bilateral relations between countries. It involves one creditor country intentionally extending excessive credit to another debtor country with the alleged intention of extracting economic or political concessions from the debtor country when it becomes unable to honour its debt obligations (often asset-based lending, with assets including infrastructure). The conditions of the loans are often not made public and the loaned money is typically used to pay contractors from the creditor country.

In many vulnerable countries, much of the burdensome debt is owed to a single source:China. According to a study by the International Monetary Fund (IMF), from 2013 to 2016, China’s contribution to the public debt of heavily indebted poor countries nearly doubled from 6.2 percent to 11.6 percent.

- **A recent report (Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective) has shown that there are 23 BRI countries that are at risk of debt distress according to measures of debt sustainability, with 8 countries of particular concern.**
- More recently analysts often reference the practice with respect to the foreign policy of China,especially through China's foreign aid, infrastructure investment, energy engagement and interconnectedness.
- China is a world leader in infrastructure development, having undergone rapid economic growth since its reform and opening economy under Deng Xiaoping due to its infrastructure-based development strategy.
- Some commentators fear that China is buttressing repressive regimes, exploiting developing countries in a neo-colonialist manner through high-rate loans, and most of all, seeking to coerce the countries invested in to align with key strategic and military issues.

- China has been accused of requiring secret negotiations leading to non-competitive pricing on projects where bidding must go to Chinese state-owned or linked companies that charge significantly higher prices than would be charged in the open market.
- **Unlike the International Monetary Fund and World Bank lending, Chinese loans are collateralized by strategically important natural assets with high long-term value** (even if they lack short-term commercial viability).Hambantota, for example, straddles Indian Ocean trade routes linking Europe, Africa and the Middle East to Asia.**In exchange for financing and building the infrastructure that poorer countries need, China demands favourable access to their natural assets, from mineral resources to ports.**
- **Rather than offering grants or concessionary loans, China provides huge project-related loans at market-based rates, without transparency, and much less environmental- or social-impact assessments.**
- Private investment (**vulture capitalists**) supported by State can also push countries towards the debt-trap.
- **So, China uses sovereign debt to bend other states to its will, without having to fire a single shot. Thereby achieving two goals:**
    -
        - **It wants to address overcapacity at home by boosting exports.**
        - **It hopes to advance its strategic interests, including expanding its diplomatic influence, securing natural resources, promoting the international use of its currency, and gaining a relative advantage over other powers.**

Some of the examples of China's Creditor Imperialism or Chequebook diplomacy

- Unable to repay China for a loan used to build a new port in the city of Hambantota, in 2017 Sri Lanka signed over to China a 99-year lease for its use, potentially as a strategic base for China's navy.
- There are concerns about Nepal falling into a similar debt trap with the government signing agreements worth $2.4 billion ranging from infrastructure and energy projects to post-disaster reconstruction efforts.
- In Djibouti, public debt has risen to roughly 80 percent of the country's GDP (and China owns the lion's share), placing the country at high risk of debt distress.
- Several other countries, from Argentina to Namibia to Laos, Burundi, Chad, and Mozambique to Zambia, have been ensnared in a Chinese debt trap, forcing them to confront agonizing choices in order to stave off default. Kenya's crushing debt to China now threatens to turn its busy port of Mombasa—the gateway to East Africa.
- China Pakistan Economic Corridor (CPEC) Project can also have similar fate as Pakistan's current and future economic prospects are not that encouraging. The country currently suffers from declining foreign reserves, a skyrocketing current-account deficit and an export to GDP ratio of below 10%, lower than other countries in the region.

These experiences should serve as a warning that the BRI(Belt and road initiative of which CPEC is a part) is essentially an imperial project and few countries already realizing that have cancelled projects :

- Some countries are however realizing the downside of Chinese money. In 2017, Malaysia, cancelled a $20 billion railway link and two pipeline projects that were being funded by the Chinese, because of their debt crisis. The newly elected government, coming to power on the back of a corruption scandal of the former prime minister, declared an investigation into the financing of Chinese projects in the country, announced that government debt had reached an equivalent of $250 billion.

- Myanmar has rolled back plans for a $7 billion Chinese-backed port on its western coast, seeking to negotiate the terms of its deal with China.

Some steps that can be taken regarding this:

-
    - Multilateralizing BRI Finances:

The World Bank and other Multilateral Development Banks (MDBs) should work toward a more detailed agreement with the Chinese government when it comes to the lending standards that will apply to any BRI project, no matter the lender.

-
    - A post-Paris Club approach to collective creditor action needs to be followed
    - Proactive lending by WB and other MDBs
    - India should help neighbouring countries by providing concessional loans, development grants, line of Credit and technological and other help for important projects so that they will not fall into such debt traps.

Given the evidence that China's lending imposes unsustainable burdens on vulnerable countries globally,it is past time for world leaders to insist that all projects adhere to internationally accepted best practices for transparency and financial sustainability and that lenders adopt modern labor, governance, and environmental standards for their development projects.